

VZCZCXRO3406
PP RUEHAG RUEHBC RUEHDE RUEHKUK RUEHROV
DE RUEHLB #0860/01 1581834
ZNY CCCCC ZZH
P 061834Z JUN 08
FM AMEMBASSY BEIRUT
TO RUEHC/SECSTATE WASHDC PRIORITY 2211
INFO RUEHEE/ARAB LEAGUE COLLECTIVE
RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHNO/USMISSION USNATO 2787
RHMFISS/CDR USCENCOM MACDILL AFB FL
RHEHAAA/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 BEIRUT 000860

SIPDIS

STATE FOR NEA/ELA
EEB/FO, EEB/IFD/ODF RDEMARCELLUS
NSC FOR ABRAMS/SINGH/YERGER/GAVITO
TREASURY FOR DAS ABAUKOL, VALVO, KMATHIASSEN
USAID FOR USAID/ME JBEVER, GLAUDATO AND USAID/ME/MEA RWEBB,
DMCCLOUD, ESCOTT

E.O. 12958: DECL: 06/03/2018
TAGS: [EAID](#) [EINV](#) [EAIR](#) [EFIN](#) [ELAB](#) [LE](#)
SUBJECT: LEBANON: FINANCE MINISTRY SHARES POSSIBLE
BENCHMARKS

REF: A. BEIRUT 852
[1](#)B. BEIRUT 810

Classified By: CDA Michele Sison for reasons 1.4 (b) and (d)

SUMMARY:

[1](#)1. (C) Discussions between the GOL and the International Monetary Fund on possible new benchmarks are proceeding slowly. The Ministry of Finance has submitted to us a list of possible triggers for disbursement of U.S. assistance, some of which are already complete. The list does not include one of our previous benchmarks: the sale of mobile telecom companies. The new government that is currently being formed will need to agree to any benchmarks. Embassy recommends we consider the MOF's new proposals, but delay a decision on benchmarks until the cabinet is named and the new government is fully functioning and we are better able to assess what is politically achievable. End summary.

NO REAL BENCHMARK DISCUSSION
BETWEEN IMF AND GOL

[1](#)2. (C) In meetings with the Finance Minister's advisory staff, represented by Chris De Clercq and Roula Azour, and with Edward Gardner, the Resident Representative of the International Monetary Fund (IMF) in Lebanon, Econoff and Econstaff learned about the GOL's proposed new benchmarks to measure GOL progress on economic reforms. Discussions between the Ministry and the IMF that began in late April were interrupted by the politically-related violence that erupted May 7, postponing substantive discussion on benchmarks.

[1](#)3. (C) Gardner told us that the IMF would probably not move quickly on establishing a new Emergency Post-Conflict Assistance (EPCA) program, although it plans to have one for Lebanon eventually. He explained that because of IMF fiscal policies and timing issues, there was no urgency to proceed at this point, so the IMF was not considering near-term benchmarks, and has not yet scheduled a meeting with the government to continue the interrupted discussions. The Finance Ministry team indicated that Minister Azour had some preliminary discussions with the IMF in Washington when he was there for the World Bank meetings, but that he had not shared specific suggestions with the IMF.

GOL PROVIDED LIST OF
POSSIBLE TRIGGERS

14. (C) On June 2, De Clercq gave us a list of suggested benchmarks, contained in paragraph 9. These are suggested as possible replacements for the two objectives that the government missed: setting excise rates on gasoline, which was due for completion in September, 2007, and sale of the majority stake in the two mobile phone companies, which was due for completion in June, 2008. Several actions on the new list have already been completed. We note that the GOL has not included the sale of the mobile telephone licenses on the new list of benchmarks. Telecom Regulatory Authority (TRA) Chairman Kamal Shehadi has stated that if there is no commitment to proceed with the sale of the mobile phone companies in the near term, the TRA will proceed with the less controversial broadband licensing program (Ref B).

POST PROPOSAL

15. (C) The USG must decide on new benchmarks covering the remaining \$125 million in U.S. Paris III funds yet to be disbursed. Embassy believes we should support benchmarks that both promote reform and are politically achievable. Right now, Lebanon does not yet have a fully functioning government, as cabinet formation has not occurred and the parliament will not meet regularly until a new cabinet is approved. At this stage, it is difficult to assess whether any proposed benchmarks are politically achievable. We should be in a better position to assess that after the

BEIRUT 00000860 002 OF 003

cabinet and parliament are functioning.

16. (C) Given this set of circumstances, Embassy recommends that we delay USG decisions on any benchmarks but consider what the MOF has proposed. There are two benchmarks included in the MOF's new list that Embassy believes are worth considering now. They are:

-- Completion of tender documents for Independent Power Producer Project by July 2008; and

-- Debt Management Reform, including the publication of the debt management strategy report for 2009, and the creation of a high committee for debt management through issuing a Council of Minister's degree, both expected by December 2008.

17. (C) Embassy recommends that USG delay consideration of the previous benchmark of mobile telecom privatization, which the MOF did not include in its new list. The caretaker Minister of Telecommunications Marwan Hamadeh indicated that he believes this is a bad time to discuss telecom privatization; other GOL officials disagree (Ref A). Embassy recommends we defer a decision until we can better assess if this is politically achievable. We note that the mobile telecom benchmark would not require new approval in Washington, since it would only be a change in date.

COMMENT

18. (C) While we recommend delaying the USG decision on benchmarks, we probably do not want to wait for the IMF to develop a new EPCA, and therefore should be prepared to identify benchmarks which will serve as realistic reform objectives for the new GOL. End comment.

FULL TEXT OF GOL PROPOSED BENCHMARKS

19. (SBU) The full text of the GOL proposal is as follows:

Budget reforms

Develop 2009 Budget Circular including ceilings for line ministries who will be responsible for preparing their 2009 budget proposals within these ceilings (Done May 2008)
Submission by the Ministry of Education a shadow three year budget framework with performance indicators (expected July 2008)

Social sector reforms

Finalization of 2001 audited accounts for the NSSF (as a follow-up on the EPCA action to appoint an auditor for NSSF accounts. Auditor to prepare an audit plan of NSSF for 2001-05) (expected June 2008)
Implementation and institutionalization of public hospitals accreditation program (expected end of 2008)
Implementation of the Exam Management System and Question Bank System on second round of 2008 Official Examinations (expected September 2008)
Expanding services for the disabled under the Right and Access Program (started in Q1 2008)

Revenue Reforms

Approval of Global Income Tax (GIT) draft law by Council of Ministers (Done on November 15, 2007)
Launch e-registration and e-Filing: tax payers can start filing online (We are in the testing phase and the next phase will be rollout) (expected end 2008)
Complete the Tax Procedure Code regulations (at MoF). The law was completed, but writing the regulations on how the law is interpreted and implemented is underway (however the regulation can not be presented to the Council of Ministers until the Law is approved by Parliament) (expected end 2008)

Cash management reforms

Minister of Finance to sign a decree to begin the process of establishing the Cash Management Department within the Treasury Directorate (Done May 2008)
Provide an institutional structure for the cash management through a Council of Minister's decree creating a Cash Management Department under the Treasury Directorate and

BEIRUT 00000860 003 OF 003

assigning a team leader (expected September 2008)

Transparency

Sign MOU agreement with the Lebanese Transparency Association (Done, Oct 25 2007)

Power Sector

Complete first draft of Generation Masterplan for Electricity Sector (Done)
Finalize and transmit Generation Masterplan for Electricity Sector to CDR (expected by end-2008)
Completion of tender documents for Independent Power Producer Project (expected by end of July 2008)

Debt Management Reforms

Publish the debt management strategy report for 2009 (expected December 2008).
Create a high committee for debt management through issuing a Council of Minister's decree (expected QIII-QIV 2008)

Transport

Establishment of the Civil Aviation Authority (expected by end 2008)

Telecommunications

Issuance by TRA of broadband licenses to new entrants for provision of national network and broadband access services, including the international gateway (expected by end 2008)

SISON